



**Fiscal Services Division**  
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February 10, 2006

**AGENDA ITEM 11**

**TO: MEMBERS OF THE FINANCE COMMITTEE**

- I. SUBJECT:** Fiscal Year (FY) 2005-06 Mid-Year Budget Revisions (Second Reading)
- II. PROGRAM:** Administration
- III. RECOMMENDATION:**
- (1) Approve the proposed FY 2005-06 mid-year administrative budget of \$256,832,290 and 1,838 positions.
  - (2) Approve an increase of \$898,358 for the Enterprise Projects budget to \$11,872,181.
  - (3) Approve an increase to the CalPERS Headquarters Building Account of \$6,154,577 to \$34,846,886.
  - (4) Approve the FY 2005-06 mid-year budget transmittal letter and the submittal of the letter and this item to the Joint Legislative Budget Committee and the Fiscal Committees of the Legislature, the State Controller, and the Department of Finance, in accordance with the FY 2005-06 Budget Act, and the Legislative Analyst's Office and the State and Consumer Services Agency.

#### **IV. ANALYSIS:**

##### **Second Reading Update**

Since the first reading of the FY 2005-06 mid-year budget in December 2005, the following change was made to the recommendations:

1. Staff recommends the approval of \$11,383,977 to fund the Retirement Applications for Disability Accelerated Response project in the administrative budget. This project will decrease the time frame for resolving disability retirement applications. This funding will provide temporary positions and resources necessary to assist in the processing of disability retirement applications and 15 permanent positions to maintain the decreased processing timeframes.

##### **ADMINISTRATIVE BUDGET**

The proposed mid-year FY 2005-06 administrative budget is \$256,832,290 and 1,838 positions. This reflects an increase of \$6,515,722 (2.6 percent) to the current budget and an increase of 27 positions. The sections below describe the components used to build the proposed mid-year budget.

##### **Technical Adjustments**

The proposed mid-year budget includes \$2,059,777 in technical adjustments:

- \$1,317,409 for personal services adjustments.
- \$742,368 for the increased FY 2005-06 statewide pro rata assessment.

##### **Budget Requests**

Staff recommends approving \$13,377,827 and 27 positions to fund fully justified budget requests. A summary of recommended requests is provided below:

##### **First Reading**

- \$600,000 to upgrade hardware and software for the automated systems used to review, process, track and determine eligibility for disability retirements. These automation changes will improve the work flow and enable staff to better focus on finalizing determinations.
- \$560,000 for the CalPERS Customer Education Solution. Upon implementation, this effort will provide members the option to schedule educational seminars on-line. An education content library will also be established and will result in more timely updates to customer education materials.

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- Two positions to increase management oversight in Fiscal Services. The ongoing, full-year cost of these positions is \$235,787.
- \$125,287 and three positions to address increased workload in the Investment Accounting Section of Fiscal Services. The ongoing, full-year cost of these positions is \$250,573.
- \$127,232 and two positions to provide clinical expertise and independent oversight for the Self Funded Health Plans. The ongoing full-year cost of these positions is \$242,463.
- \$37,116 and one position to address backlog increases in the Estimates Unit within Member Services. The ongoing full-year cost is \$89,078.
- Three positions to increase the audit frequency of high risk agencies. The ongoing, full-year cost of these positions beginning in FY 2006-07 is \$280,006.
- \$44,215 and one position to address internal communications workload increases in the Public Affairs Office. The ongoing full-year cost is \$88,430.
- \$500,000 to initiate change management activities related to the Pension System Resumption project.

**Second Reading**

- \$11,383,977 and 15 permanent positions to reduce the time frame for processing disability retirement applications. The ongoing full year cost is \$1,231,909.

The following chart summarizes the budget requests. Staff recommends funding these requests by redirecting existing resources, as described in the next section.

Budget Requests	Recommendations		
	05/06 ONE-TIME FUNDS	06/07 ON-GOING FUNDS	POSITIONS
<b>1st Reading</b>			
Disability automation enhancements to improve workflow.	600,000	-	-
Customer Education Solution to provide online scheduling of education seminars.	560,000	-	-
Increased management oversight for critical fiscal activities.	-	235,787	2.0
Staff to address increased workload in Investment Accounting area.	125,287	250,573	3.0
Medical consulting staff to provide expertise in the self funded health programs.	127,232	242,463	2.0
Increased staff to address backlogs in member estimate requests.	37,116	89,078	1.0
Staff increase to provide more audits of high risk agencies.	-	280,006	3.0
Internal communications staff increase to address critical projects.	44,215	88,430	1.0
Change management activities related to the Pension System Resumption project.	500,000	-	-
<b>1st Reading Total</b>	<b>\$1,993,850</b>	<b>\$1,186,337</b>	<b>12.0</b>
<b>2nd Reading</b>			
Retirement Applications for Disability Accelerated Response Project	11,383,977	1,231,909	15.0
<b>Total</b>	<b>\$13,377,827</b>	<b>\$2,418,246</b>	<b>27.0</b>

### **Available Funding Sources**

Staff had identified one-time division savings of \$4,053,627 to fund requests presented in the First Reading. An additional \$4,868,255 has been identified for redirection to the Retirement Applications for Disability Accelerated Response project. These redirections and the proposed increase of \$6,515,722 will fund the recommended budget requests and technical adjustments described earlier.

### **Review of Proposed Budget**

The recommended budget revisions would result in a \$256.8 million budget, an increase of approximately \$6.5 million, or 2.6 percent. This budget uses existing resources to fund 58 percent of the recommended technical adjustments and budget requests. The following chart provides a re-cap of the proposed mid-year budget.

<b>Proposed Mid-Year FY 2005-06 Budget</b>		
	<b>Dollar Amount</b>	<b>Positions</b>
<b>Current Budget</b>	\$250,316,568	1,811
<b>Technical Adjustments</b>	\$2,059,777	-
<b>Budget Requests</b>	\$13,377,827	27
<b>Available Funds</b>	-\$8,921,882	
<b><i>Revised FY 2005-06 Budget</i></b>	<b>\$256,832,290</b>	<b>1,838</b>

### **Impact to the FY 2006-07 and Ongoing Baseline Budget**

The proposed mid-year recommendations would increase the ongoing baseline budget beginning in FY 2006-07. The full-year, ongoing costs of the recommended budget requests are \$2,418,246.

### **Cost Allocation Update- Second Reading Status**

Staff uses a cost allocation methodology approved by the Board in FY 1999-00 to equitably distribute administrative program costs across CalPERS funds. To complete the cost allocation process, Fiscal Services annually surveys divisions to collect workload statistics. Fiscal Services uses the survey results to determine each fund's share of administrative costs. Staff completed this year's survey in December 2005. The survey results and the mid-year budget requests were used to calculate the recommended appropriation levels for each administrative budget funding source. The specific recommended amounts are displayed in Attachment 1.

## **ENTERPRISE PROJECTS BUDGET**

### **Current Budget**

The current budget for the enterprise projects is \$10,973,823.

- \$3,973,823 for the Pension System Replacement (PSR) project.
- \$7,000,000 for the Enterprise Management of Billing, Accounts Receivable and Collections (EMBARC) project.

### **Proposed Budget**

Both projects have requested increases to their budgets.

- The PSR project is requesting an additional \$680,000 to extend contracts through the end of the procurement phase. This will ensure an adequate level of support and minimize risk to the project.
- The proposed budget for PSR will be \$4,653,823.
- The EMBARC project is requesting an additional \$218,358 to support the development of customized PeopleSoft modules for long term notes.
- The proposed budget for EMBARC will be \$7,218,358.

## **CALPERS HEADQUARTERS BUILDING ACCOUNT BUDGET**

### **Current Budget**

The CalPERS Headquarters Building Account (CHBA) budget is \$28,692,309 and funds the routine operational activities of the Lincoln Plaza complex as well as any necessary improvements to the buildings.

### **Proposed Budget**

The proposed mid-year budget for the CHBA is \$34,846,886. This increase of \$6,154,577 (21 percent) is to equip a new emergency operations center. With the impending move to the new buildings, CalPERS will no longer lease space at the Gateway Oaks location. This location has served as the emergency operations center for CalPERS in the event of a disaster. In June 2005, the Board instructed CalPERS staff to purchase a new building to function as a disaster recovery facility. This purchase closed escrow in October 2005 and work needs to begin to make the building suitable for this purpose. Because of the timing on the approval of the purchase of the new emergency operations center, these items could not be anticipated during the FY 2005-06 budget development process.

**V. STRATEGIC PLAN:**

This item is not a specific product of the Strategic Plan. It is brought to the Finance Committee and the full Board of Administration to satisfy the following requirements: (1) obtain approval of FY 2005-06 Mid-Year budget revisions; and (2) fulfill Budget Act control language requirements.

**VI. RESULTS/COSTS:**

The CalPERS FY 2005-06 administrative budget will increase by \$6,515,722 or 2.6 percent, to \$256,832,290. The enterprise projects budget will increase by \$898,358 or 8 percent, to \$11,872,181. The CHBA budget will increase by \$6,154,577 or 21 percent, to \$34,846,886. The recommendations contained in this agenda item will take effect upon the approval of the second reading by the Board of Administration at the February 2006 meeting.

*Original signed by Russell G. Fong*

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Russell G. Fong, Chief  
Fiscal Services Division

*Original signed by Curtis Howard*

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Curtis Howard  
Assistant Executive Officer  
Administrative Services Branch

Attachment